Leg. Sub

Calendar No. 364

93D CONGRESS, 1st Session } SENATE { REPORT No. ~~43~~-386 93

THE FOREIGN ASSISTANCE ACT OF 1973

SEPTEMBER 10, 1973.—Ordered to be printed

Mr. TALMADGE (for Mr. LONG), from the Committee on Finance, submitted the following

REPORT

[To accompany S. 2335]

The Committee on Finance, to which was referred the bill (S. 2335) to amend the Foreign Assistance Act of 1961, and for other purposes, having considered the same, reports favorably thereon with amendments and recommends that the bill (as amended) do pass.

EXPLANATION OF COMMITTEE AMENDMENTS

The Finance Committee amendments to S. 2335 strike Section 16 from the Foreign Assistance Act of 1973, and make conforming clerical changes elsewhere in the bill. Section 16 would have established a U.S. Export Development Credit Fund, financed by public borrowings of the U.S. Treasury.

The fund would have offered financing for U.S. exports to the lowest income countries (i.e., those with per capita gross national products of $375 a year or less) on concessional terms—interest rates of not less than three percent per year, repayment within 30 years, and a grace period of not more than five years on repayment of principal.

The fund would have been authorized to make loans of up to $3 billion during the 3½ year period between July 1, 1974 and December 31, 1977. However, the amount could have been larger as it would have been governed by a percentage (15 percent) of the commitment authority of the Export-Import Bank. Another bill currently pending before the Senate Banking, Housing and Urban Affairs Committee (S. 1890) contains an Administration request to increase the commitment authority of the Eximbank from $20 billion to $30 billion.

The interest subsidy on the loans—the difference between the effective cost of borrowing and the concessional interest rate charged—would have been financed by repayments received by the U.S. Government on past foreign assistance loans.

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GENERAL STATEMENT

The Committee's action to delete section 16 is based on its feeling that this proposal should be considered in the context of trade legislation requested by the President and now pending before the House Ways and Means Committee. The Committee agreed to re-examine this proposal when it takes up the foreign trade legislation. The main purpose of the proposal, as explained by Administration witnesses, was to increase U.S. exports. It was also aimed at helping the development of poorer developing countries, although there is some question how both these purposes would be made consistent with one another.

Trade, aid, investment and other matters are all inter-related and cannot realistically be dealt with as isolated, separate compartments. This trade-aid proposal is no exception. It would channel soft loan money into developing countries, many of which are associated territories of the European Common Market. Its impact on U.S. exports and the balance of payments is not clear, particularly in the light of the trade preferences and "reverse trade perference" arrangements between the Common Market and its associated territories.

There are a number of considerations that led the Committee to believe that the proposed fund should be carefully studied, in the context of trade legislation, before it is written into law. Some of these considerations are discussed below.

1. *The budget, interest rates, dollar devaluations, export controls and inflation.*—This proposal was not included in the Administration's budget request for fiscal year 1974, even though the Administration did support it in testimony before the Committee. As reported by the Foreign Relations Committee, the fund would not be subject to the annual authorization and appropriation processes. Given our budgetary situation, the priority of a new \$3 billion to \$5 billion program for foreign trade and aid will have to be compared to the priority of the many worthwhile domestic programs that have been cut back in the budget.

The Committee will also want to consider the impact of this proposal on our financial markets which are already under severe credit restraints. The prime interest rate charged by banks is the highest in history, at 9¾ percent. Mortgage money is extremely scarce as is financing for education and other worthwhile domestic needs. The proposal would extend credit to foreign countries at 3 percent interest rates for 30 years when American citizens cannot often receive financial loans for less than 10 percent. Additional borrowings by the Treasury from the already overburdened capital markets could only increase interest costs to American citizens.

The dollar has been devalued twice officially and many more times unofficially in the foreign exchange markets. These devaluations have served to make many American-made products more competitive in foreign markets. In fact, some agricultural commodities and other raw materials have been bought in such quantities by foreigners that export controls have been imposed. Is an export subsidy involving billions justifiable in the light of the dollar devaluations and export controls?

Finally, inflation has been raging in the United States at an unacceptable rate. The wholesale price index, seasonally adjusted, for

the month of August increased by a phenomenal 6.2 percent. Inflation is our nation's number one economic problem. Unless the Federal budget is brought into a real balance, too heavy an emphasis will continue to be placed on a tight monetary policy and controls. Any additional expenditure of the magnitude of the cost of this proposal should only be approved if it is a very high priority item, in the light of the raging inflation and the need for budgetary restraint.

2. *Multiple foreign aid programs.*—The Committee is also aware that foreign aid programs cover a multitude of soft loan, hard loan, and grant assistance programs for economic, security, and other purposes. The Chairman of the House Appropriations Subcommittee on Foreign Operations supplied the Finance Committee with the Administration's budget requests for various foreign aid programs which, as shown in Table I below, total \$18.0 billion.

There are already various soft loan programs in existence which finance U.S. exports. The Development Loan Fund of AID provides soft loans at 2 percent interest for over 40 years to developing countries to finance U.S. exports. Given the existence of so many foreign aid programs, the Committee will want to be sure that the enactment of a new program will not simply duplicate existing programs.

TABLE I.—*New requests for authorization and/or appropriation for foreign aid and assistance contained in the fiscal year 1974 budget document*

1. Foreign Assistance Act (includes military assistance)	\$2,428,850,000
2. Overseas Private Investment Corporation	72,500,000
3. Foreign Military Credit Sales	525,000,000
4. Inter-American Development Bank	693,380,000
5. International Development Association	320,000,000
6. Asian Development Bank	100,000,000
7. Asian Development Bank (proposed)	108,571,000
8. Asian Development Bank (maintenance of value)	24,000,000
9. International Development Association (maintenance of value)	161,000,000
10. Inter-American Development Bank (maintenance of value)	510,000,000
11. International Bank for Reconstruction and Development (maintenance of value)	774,000,000
12. International Monetary Fund (maintenance of value)	756,000,000
13. Maintenance of value adjustment	25,000,000
Subtotal, maintenance of value (budget amendment)	2,250,000,000
14. Receipts and recoveries from previous programs	394,464,000
15. Military assistance (in Defense budget)	1,930,800,000
16. International Military Headquarters	85,800,000
17. MAAG's, Missions and Milgroups	168,100,000
18. Permanent Military construction-Foreign Nations	190,700,000
19. Export-Import Bank, long-term credits	3,850,000,000
20. Export-Import Bank, regular operations	2,200,000,000
21. Export-Import Bank, short-term operations	1,600,000,000
22. Peace Corps	77,001,000
23. Migrants and refugees	8,800,000
24. Public Law 480 (agricultural commodities)	653,638,000
25. Contributions to International Organizations	199,787,000
26. Education (Foreign and other students)	59,800,000
27. Trust Territories of the Pacific	56,000,000
28. Latin America Highway (Darien Gap)	30,000,000
Total	18,003,191,000

EFFECT ON THE REVENUES

In compliance with Section 252(a) of the Legislative Reorganization Act of 1970, the following statement is made relative to the effect of the Committee action on Federal revenues. Compared with S. 2335 as referred to the Committee, Committee action will reduce the need for the Federal Government to borrow at least $3½ billion over the next 3 years and will save at least $40 million in interest subsidies.

VOTE OF THE COMMITTEE IN REPORTING THE BILL

In compliance with Section 133 of the Legislative Reorganization Act, as amended, the following statement is made relative to the vote of the Committee in reporting the bill without Section 16. The Committee voted as follows to delete Section 16 from the bill:

In favor: 14 (Messrs. Long, Talmadge, Hartke, Fulbright, Ribicoff, Byrd, Gravel, Bentsen, Curtis, Fannin, Hansen, Dole, Packwood, and Roth).

Opposed: 2 (Messrs. Mondale and Bennett).

The Committee voted to report the bill by voice vote.

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